

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LEVEE ROAD WATER)
ASSOCIATION FOR A RATE ADJUSTMENT) CASE NO. 92-007
PURSUANT TO THE ALTERNATIVE RATE)
FILING PROCEDURE FOR SMALL UTILITIES)

O R D E R

On January 2, 1992, Levee Road Water Association, Inc. ("Levee Road") filed its application for Commission approval of a proposed increase in its rates for water service. Commission Staff, having performed a limited financial review of Levee Road's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding Levee Road's proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, then this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 29th day of June, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



RECEIVED

COMMONWEALTH OF KENTUCKY

JUN 25 10 00 PM '92

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THE APPLICATION OF LEVEE ROAD WATER)
ASSOCIATION FOR A RATE ADJUSTMENT)
PURSUANT TO THE ALTERNATIVE RATE) CASE NO. 92-007
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STAFF REPORT

June 17, 1992

Prepared By: Jack Scott Lawless
Public Utility Financial Analyst
Water and Sewer Revenue
Requirements Branch
Rates and Tariffs Division

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Public Utility Rate Analyst
Communications, Water and
Sewer Rate Design Branch
Research Division

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ON

LEVEE ROAD WATER ASSOCIATION

PUBLIC SERVICE
COMMISSION

CASE NO. 92-007

A. Preface

On January 2, 1992, Levee Road Water Association, Inc. ("Levee Road") submitted its application to the Commission seeking approval to increase its tarified rates by 36 percent. Petitioner's application purports that this increase will result in an increase in annual operating revenues of \$27,183. The application was filed reflecting Petitioner's operating results for the year ended 1990. However, pursuant to the office manager's letter received on February 20, 1992, Levee Road amended its application to use the twelve month period ending December 31, 1991 as the test period in this proceeding.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Levee Road's operations for the test period ended December 31, 1991. Jack Scott Lawless and Karen Harrod of the Commission's Division of Rates and Tariffs conducted the review on April 1, 1992 at Levee Road's office in Mt. Sterling, Kentucky. Nicky Moore of the Commission's Research Division performed a review of the 1990 billing analysis filed by Levee Road and, subsequently performed a billing analysis for the 12 months ending December 31, 1991 to conform to the time period in the amended application.

The findings of the field review have been reduced to writing in this report. Nicky Moore is responsible for the sections related to operating revenues and rate design. The remaining sections of the Staff Report were prepared by Jack Scott Lawless. Based upon the findings of this report, Staff recommends that Levee Road be allowed to increase its annual revenues from sales of water by \$40,228.

Scope

The scope of the review was limited to obtaining information to determine whether test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed here-in.

During the course of the review, Levee Road was advised that all proposed adjustments to test year expenses must be supported by some form of documentation such as an invoice, and that all such adjustments must be known and measurable.

B. Determination of Adjusted Test Period Operations

Operating Revenue

The billing analysis filed by Levee Road with its application was for the 12 months ending December 31, 1990; however, the test period accepted herein consists of the 12-month period ending December 31, 1991. Staff, therefore, performed a billing analysis conforming to the test period. This billing analysis shows that revenue of \$87,124 will be produced at the current rates based on the test year customers and water sales. The billing analysis revenue is within 3 percent of the revenue from water sales of

\$89,763 shown in Levee Road's 1991 Annual Report. This billing analysis has, therefore, been used to determine the appropriate rates to produce the total revenue requirement of \$127,352 recommended herein.

In Case No. 91-369 dated October 31, 1991, Levee Road was granted a purchased water adjustment and the results of that increase has been included in this Staff Report.

Operating Expenses

For the test year Levee Road reported operating expenses of \$113,750. Staff has adjusted these expenses to reflect pro forma operations. The pro forma adjustments to test period expenses are discussed in the following sections of this report.

Salaries and Wages - Employees

Levee Road reported test year salaries and wages - employees of \$14,420. After reviewing the current schedule of employees and salaries, Staff has calculated the current salary level to be \$15,200. Accordingly, Staff recommends an adjustment to increase test year salaries and wages of \$780.¹

¹	Office Clerk/weekly	\$ 200	
	Annualize	<u>52</u>	
	Pro forma		\$ 10,400
	Office Manager/monthly	400	
	Annualize	<u>12</u>	
	Pro forma		<u>4,800</u>
	Total Pro forma		15,200
	Less: Test year		<u>(14,420)</u>
	Adjustment - Increase		<u>\$ 780</u>

Salaries and Wages - Officers

Levee Road reported test year salaries and wages - officers of \$1,425. After Staff's review it was determined that the pro forma amount would be \$1,500, resulting in a positive adjustment of \$75² to test year operating expenses.

Contractual Services

Levee Road reported test year contractual services of \$12,864. During Staff's review it was discovered that \$6,545 of this expense was directly related to the installation of 17 meters. Since these expenditures are related to extensions of new plant, Staff is of the opinion that these expenditures should be capitalized. This adjustment will result in a decrease in operating expenses of \$6,545.³

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2	Monthly Salary	\$ 25	
	Times: Number of Officers	<u>5</u>	
	Total Monthly Salary	125	
	Annualize	<u>12</u>	
	Pro forma		\$ 1,500
	Less: Test year		<u>(1,425)</u>
	Adjustment - Increase		<u>\$ 75</u>
3	<u>Check #</u>	<u>Vendor</u>	<u>Description</u>
	3417	Atkinson Excav.	Set 2 meters
	3434	"	Set 3 meters
	3554	"	Set meter
	3526	"	Set meter
	3473	"	Set 3 meters
	3499	"	Set meter
	3513	"	Set meter
	3451	"	Set 5 meters
			<u>(1,900)</u>
	Adjustment - Decrease		<u><u>\$(6,545)</u></u>

Rent Expense

Levee Road rents the office building from which it carries out its daily operations. During the test year the rent increased from \$150 to \$200 per month. Staff has made the appropriate adjustment to operating expenses of \$250.⁴

Depreciation Expense

Staff has adjusted this expense to reflect depreciation of the capitalization of contractual services as previously discussed. Staff has depreciated the new meters over a 40 year period as instructed by the National Association of Regulatory Utility Commissioners in its manual entitled Depreciation Practices For Small Water Utilities. Accordingly, test year depreciation expense has been increased by \$164.⁵

Taxes Other Than Income Taxes

Levee Road reported test year taxes other than income tax expense of \$2,168 to reflect FICA expense for test period salaries and wages. Based on the salaries and wages - employees expense recommended in this report, Staff has calculated pro forma FICA expense to be \$1,163. Accordingly, Staff has made an adjustment

4	Monthly rent	\$ 200	
	Annualize	<u>12</u>	
	Pro forma		\$ 2,400
	Less: Test year		<u>(2,150)</u>
	Adjustment - Increase		<u>\$ 250</u>
5	Cost of meters		\$ 6,545
	Divide by: Forty years		<u>40</u>
	Adjustment - Increase		<u>\$ 164</u>

to decrease test year taxes other than income taxes expense by \$1,005.⁶

Operations Summary

Based on the recommendations of Staff contained in this report, Levee Road's operating statement would appear as set forth in Appendix B to this report.

C. Revenue Requirements Determination

Staff has calculated Levee Road's average annual debt service to be \$16,878.⁷ Based on the adjusted test year operations, Levee Road's debt service coverage ("DSC") is -1.18x.⁸ Staff is of the opinion that a DSC of 1.2x is necessary to allow Levee Road to meet its operating expenses, service its debt, and provide for reasonable equity growth. Therefore, Staff recommends an allowance for a 20 percent DSC or \$3,375.⁹

In summary, Staff recommends that Levee Road be allowed to increase its annual revenues by \$40,228, calculated as follows:

<hr/>		
6	Pro forma	
	Salaries and Wages - Employees	\$15,200
	Times: FICA rate	<u>7.65%</u>
	Pro forma FICA	\$ 1,163
	Less: Test year	<u>(2,168)</u>
	Adjustment - Decrease	<u>\$ (1,005)</u>
7	FmHA #91-01	\$ 9,070
	FmHA #91-03	<u>7,808</u>
	Average Annual Debt Service	<u>\$16,878</u>
8	\$ (19,974) + \$16,878 = -1.18	
9	\$16,878 x .2 = 3,375	

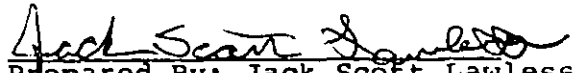
Adjusted Operating Expenses	\$107,469
Annual Debt Service	16,878
20 Percent DSC	<u>3,375</u>
Total Revenue Requirement	\$127,722
Less: Operating Revenues	(87,124)
Interest Income	<u>(370)</u>
Required Increase	<u>\$ 40,228</u>

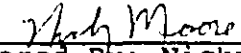
D. Rate Design

In its application, Levee Road filed a schedule of present and proposed rates, but did not propose any changes in the rate structure. The Staff is in agreement that the present rate structure should not be altered. Therefore, any increase granted in this case has been added to the existing rate structure. The Staff recommends that the rates in Appendix A, attached hereto and incorporated herein, be approved for service rendered.

In addition, Levee Road proposed to establish rates for the following non-recurring charges Returned Check Fee, Service Call, Turn On Fee and Turn Off Fee. Cost studies that supported the proposed rates were filed by Levee Road and after review of the cost support studies, the Staff has determined that the proposed charges are reasonable and recommend that they be approved. Levee Road is permitted to charge non refundable association dues of \$40.00 and the Staff considers this to be reasonable and recommends approval.

E. Signatures


Prepared By: Jack Scott Lawless
Public Utility Financial Analyst
Water and Sewer Revenue
Requirements Branch
Rates and Tariffs Division


Prepared By: Nicky Moore
Public Utility Rate Analyst
Communications, Water and
Sewer Rate Design Branch
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APPENDIX A
TO STAFF REPORT CASE NO. 92-007

The Staff recommends the following rate be prescribed for customers of Levee Road Water Association, Inc.

<u>Residential and Business Consumer</u>	<u>Rates</u>
First 1,000 gallons	\$10.25 Minimum Bill
Next 2,000 gallons	3.85 per 1,000 gallons
Next 3,000 gallons	3.15 per 1,000 gallons
Next 19,000 gallons	2.40 per 1,000 gallons
Next 25,000 gallons	2.05 per 1,000 gallons
Over 50,000 gallons	1.75 per 1,000 gallons
<u>Commercial Hauler</u>	
All Water Purchased	\$4.25 per 1,000 gallons
<u>Water-drop Coin Vendor</u>	
All Water Purchased	\$4.75 per 1,000 gallons
Returned Check Fee	\$10.00
Service Call	10.00
Turn On Fee	10.00
Turn Off Fee	10.00
Non Refundable Association Dues	40.00

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APPENDIX B
TO STAFF REPORT FOR CASE NO. 92-007

Levee Road Water Association, Inc.
Statement of Adjusted Operations

	Test Year	Adjustments	Test Year Adjusted
Operating Revenues			
Sales of Water	\$89,763	(\$2,639)	\$87,124
Other Operating Income	0		0
	-----	-----	-----
Total Operating Revenue	89,763	(2,639)	87,124
	-----	-----	-----
Operating Expenses			
Operation and Maintenance			
Salaries and wages - Employees	14,420	780	15,200
Salaries and wages - Officers	1,425	75	1,500
Purchased water	43,877		43,877
Purchased power	1,563		1,563
Materials and supplies	5,309		5,309
Contractual services	12,864	(6,545)	6,319
Rents	2,150	250	2,400
Insurance	882		882
Regulatory commission fee	127		127
Miscellaneous	6,795		6,795
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Total Operation and Maintenance	89,412	(5,440)	83,972
Depreciation	22,170	164	22,334
Taxes Other Than Income Taxes	2,168	(1,005)	1,163
	-----	-----	-----
Total Operating Expenses	113,750	(6,281)	107,469
	-----	-----	-----
Net Operating Income	(23,987)	3,642	(20,345)
	-----	-----	-----
Other Income			
Interest Income	370		370
	-----	-----	-----
Income Available for Debt Service	(\$23,617)	\$3,642	(\$19,975)
	=====	=====	=====